

Advantages to Extending the Contract Period One Additional Year and Issuing and RFP in 2007

- Transformation continues to occur in the marketplace:
 - Changes are occurring in the healthcare marketplace, including purchaser dynamics.
 - Health plan mergers will add potential bidders to the California marketplace.
 - Innovative benefit designs emphasizing prevention and disease management are emerging and gaining acceptance.
- Extension of RFP preparation time:
 - More time to create an innovative medical administrator RFP.
 - Less utilization of consultant resources.
- Satisfaction with Blue Cross' services:
 - Blue Cross is performing satisfactorily.
 - Received competitive pricing from Blue Cross for extension.
 - Aggressive stance with provider discounts should make Blue Cross more competitive in the next two years.
 - Ability to take advantage of implementation of innovative programs, e.g., Centers of Expertise for Bariatric Bypass Surgery and CalPERS Telemedicine Pilot Program for members in designated rural areas.
- The contract periods for the third party medical administrator and pharmacy benefit manager (PBM) would be staggered:
 - The PBM contract would become effective July 1, 2006, and the third party medical administrator contract would become effective January 1, 2007.
 - Potential member disruption would be mitigated.
 - Resource challenges would occur if implementation of a new PBM occurred at the same time as the Medical Administrator RFP process.

Disadvantages to Extending Contract Period One Additional Year and Issuing and RFP in 2007

- Delay in entrance to market by one year.
- Delay test of pricing, products and discounts available in market by one additional year.

Recommendation

- Recommend extending Blue Cross contract for one additional year (January 1, 2007 to December 31, 2007).
- Recommend issuing RFP for third party medical administrator for the Self-Funded Health Plans for a target release date in October 2006.